

**AGENDA:** May 25, 2004

**4.12**

**CATEGORY:** Consent

**DEPT.:** City Manager

**TITLE:** Governor's Budget/Local Revenue Proposal

### **RECOMMENDATION**

Adopt a position of support for the League of California Cities (League) General Assembly's recent vote to support the Governor's proposed package of local government funding reductions and strengthened constitutional protections for local government revenues.

### **FISCAL IMPACT**

If the budget/local revenue proposal is adopted as proposed, approximately \$1.4 million in Mountain View General Fund revenues and \$256,000 in Revitalization Authority property tax revenues will be transferred to the State in each of the next two fiscal years.

In exchange for the two additional years of local government funding reductions, the State is to repay the City in FY 2006-07 \$1.3 million in vehicle license fee (VLF) backfill revenues the City was not paid in the current 2003-04 fiscal year and also commence reimbursement of approximately \$500,000 for unpaid mandated costs. Additionally, strengthened protections will be added to the State constitution to prevent further local revenue take-aways by the State in the future.

Staff is still researching to determine what, if any, impact the proposal will have on revenues of the Shoreline Community Fund.

### **BACKGROUND AND ANALYSIS**

On May 13, 2004, the League's General Assembly delegates voted to support Governor Schwarzenegger's proposed package of temporary (two-year) local government funding reductions that are coupled with strengthened constitutional protections for local government revenues in the future. Specifically, the Governor's proposed budget/local revenue proposal calls for:

- Cities, counties, special districts and redevelopment agencies transferring \$1.3 billion in local revenues to the State in each of the next two fiscal years to ease the State's budget crisis.

- Repayment of the FY 2003-04 VLF backfill to cities and counties in FY 2006-07.
- Repayment of previously deferred mandated cost reimbursements to local governments, commencing in FY 2006-07.
- The Governor's commitment to work with local government officials for passage by the Legislature and voters of a constitutional measure that would prevent any further State take-aways of local revenues in the future.

Additionally, the General Assembly reaffirmed the League's continued support of the Local Taxpayers and Public Safety Protection Act. (The City Council voted to support the local Taxpayers and Public Safety Protection Act initiative at its March 23, 2004 meeting.)

Based on the action taken by its General Assembly, the League will be undertaking the following activities during the next several months:

- Proceed with a campaign to secure voter approval of the Local Taxpayers and Public Safety Protection Act on the November 2004 ballot.
- Work with the Governor and Legislature to achieve legislative passage of a constitutional amendment alternative to the Local Taxpayers and Public Safety Protection Act that provides the equivalent or better local revenue and mandate protection in conjunction with a two-year budget package costing local governments \$1.3 billion per year.
- If an acceptable alternative constitutional amendment measure is passed by the Legislature, campaign with the Governor to get it passed in November. If the alternative fails to receive legislative support, campaign exclusively for the passage of the Local Taxpayers and Public Safety Protection Act.

Although supporting this approach will require local governments in California to endure two additional years of revenue losses/transfers to the State, local governments gain the Governor's pledge to work for the passage of a constitutional measure that will ultimately result in a level of protection for local revenues even greater than what will be provided through the Local Taxpayers and Public Safety Protection Act, if approved by voters.

However, concerns have been raised regarding this approach, including:

- This solution does nothing to address the need for a restructuring of the fiscal relationship between the State and local governments so that local governments have the long-term fiscal stability and predictability they need to provide services to the residents they serve.

**AGENDA:** May 25, 2004

**PAGE:** 3

- There is no guarantee that, even with these revenue transfer actions, the State's fiscal condition will improve enough in the next two years for the State to provide the VLF backfill and unpaid mandate reimbursements promised in the package or abide to any requirement not to take additional revenues away from local governments in the future.

### **ALTERNATIVES**

1. Take no position on the proposed budget/local revenue proposal.
2. Adopt a position in opposition to the proposed budget/local revenue proposal.

### **PUBLIC NOTICING** – Agenda posting.

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